

EXHIBIT

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Jan 12, 2015

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MONTANA DNRC



FISCAL YEAR 2014 HIGHLIGHTS

From the Director

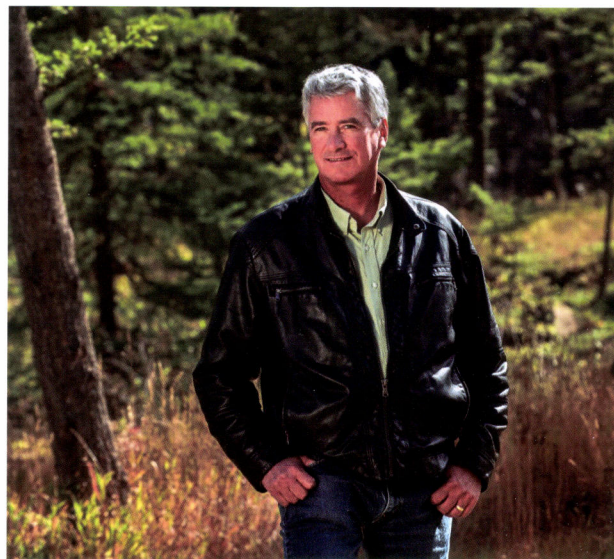
The need for more active forest management in Montana has been a priority for Governor Bullock and DNRC over the past year. And thanks to the efforts of a lot of people at all levels of government, we're making progress.

In July, DNRC launched the Forests In Focus initiative to address the challenges facing Montana forests across ownerships. This effort includes funding for fuels-reduction and forest restoration projects on non-federal lands. In order to better address forest issues on federal lands, DNRC in September of 2013 signed a Master Stewardship Agreement with the U.S. Forest Service, allowing the agencies to work in partnership on mutually-beneficial projects. And in May of 2014, DNRC and the Helena National Forest launched the first-ever Stewardship project in the Tenmile Creek watershed. DNRC foresters and their federal counterparts are working side by side on the 490-acre Red Mountain Flume – Chessman Reservoir project, which aims to mitigate fuel loading and wildfire threats to the City of Helena's municipal water supply. The project complements fuels-reduction and thinning work coordinated by the city on adjacent private lands.

I share the belief that there is a lot of work to be done in the woods – to reduce wildfire risks; to protect watersheds and water supplies; to restore forests decimated by disease and insects. In taking on these and other projects, we can also bring stability to Montana's logging and milling sector, which continues to struggle as a result of diminished timber supply.

Of course forest management was only one piece of DNRC's year. Our Water Resources Division completed the examination of 57,000 water right statements of claim on March 31, 2014, a critical step in the adjudication of Montana's water rights. Water Resources staff is also busy preparing the Draft 2015 Montana State Water Plan, which will go before the Legislature for approval. Thanks to reduced borrowing costs for the State of Montana, DNRC cut interest rates on its State Revolving Fund loans for drinking water and wastewater treatment projects, saving communities across the state more than \$71 million. And our management of Montana's 5.2 million acres of State Trust Lands continues to be a bright spot, with total revenues generated exceeding \$114 million, and distributable revenues for K-12 schools of \$54.7 million this fiscal year. Revenues from timber management were especially strong, and oil royalties exceeded \$20 million for the first time in the state's history.

You'll find a more detailed summary of DNRC's Fiscal Year 2014 achievements in the pages that follow.



John E. Tubbs,
Director

The DNRC Economy

Montanans have a long and enduring history of making their living from the land. The fabric of our state's economy is woven from a great many resource-dependent livelihoods — forest products, mining, ranching, farming, recreation, tourism, and others.

Today, DNRC continues to work at the center of Montanans' vision for life, land and resource conservation. The Department not only supports and invests in many industries, but also provides and stimulates considerable amounts of employment. Every four years the Department manages \$1 billion for project and program investments. In a normal wildfire season, DNRC delivers paychecks to sixteen hundred employees working

across 21 or more counties. These authorized funds are dependable capital, energizing private enterprise and helping to spur thousands of jobs in Montana's economy. In Fiscal Year 2014, DNRC water projects delivered approximately 290,000 acre-feet of water under contract for irrigated agriculture.

Studies suggest the value of public investments into natural resource industries can sustain between 10 and 50 jobs per million

See the full report at www.dnrc.mt.gov/publicinterest/dnrc-economy.pdf

dollars invested, and double or even triple as private income. Summarizing this broad industry evidence, it would not be unreasonable to expect that the Montana DNRC influences between 2,500 and 12,500 private-sector jobs across the state in any given year. Along with driving employment, DNRC investments in resource development and restoration would also potentially generate somewhere between \$250 and \$750 million in private income statewide. This very large potential is the contribution of DNRC to Montana's economy.



By the
numbers

\$250,000,000

authorized annually in department and project funding

\$40 to \$50,000,000

paid in salaries

\$20.50

20.40 average wage rate paid

400 to 800

400-800 temp workers employed each year

Over 700

employed full time during the course of a year

Over \$25,000,000

in grants awarded by DNRC in FY 2013

2,500 -12,500

Range of total employment jobs impacts

\$250 - \$750,000,000

Range of total spending impacts



Forestry

The Forestry Division provides forestry assistance, fire and aviation management, business management and forest policy. Forestry plans and implements forestry and wildland fire management programs for Montana communities, fire departments, and private landowners through an extensive network of field staff and cooperators across the state.

Fiscal year highlights

Cost-share grants totaling over \$2 million for fuels reduction, forest health, habitat improvement, urban forestry, and watershed protection.

Continued promotion of wood utilization, new markets for wood products, active management across all ownerships to ensure sustainable fiber supply, and public education efforts promoting wood energy.

Worked with MSU Extension to deliver stewardship workshops and landowner education for forest landowners; partnered with Department of Environmental Quality to produce tree and shrub seedlings for river restoration projects; assisted Fish, Wildlife & Parks to manage forest resources on wildlife management areas and state parks.

Launched new "Tree City of the Year" and "School Releaf" initiatives promoting urban forestry in schools and communities.

Suppressed 301 fires totaling 12,307 acres with no serious injuries or fatalities. Held 98.3% of the fires to 10 acres or less.

Flew 784 hours with DNRC aircraft and delivered over 1.1 million gallons of water to fires with no accidents or incidents; provided training to 2,355 Montana firefighters.

Developed 26 wildland fire engines (22 for county assistance & 4 for DNRC direct protection) and 3 water tenders.

Continued cost recovery efforts from federal agencies for wildland fires in previous years.

Signed a Master Stewardship Agreement with the USDA Forest Service, and a stewardship contract for the Chessman Flume project near Helena.

Assisted Governor Bullock with designation of nearly 5 million acres of priority USFS lands under authorities in the 2014 Farm Bill.



Conservation and Resource Development

The Conservation and Resource Development Division (CARDD) helps Montanans manage the state's natural resources and provides financing for conservation resource management and reclamation activities. In Fiscal Year (FY) 2014, the division had 26 employees in three bureaus: Conservation Districts, Financial Development, and Resource Development.

Fiscal year highlights

CARDD awarded \$47 million in loan contracts and grants, funding water and wastewater infrastructure improvements to more than 38 community and natural resource projects throughout the state. Other division activities this year included:

- \$8.4 million awarded for 66 projects that benefit and/or develop renewable resources. Projects range from repair of an irrigation system siphon in Beaverhead County to wastewater system improvements in Richland County.



- Reclamation and Development Grants program awarded \$4.2 million in 40 grants that protect and repair damages to natural resources. Reclamation projects funded include stream restoration from the effects of placer mining in Missoula County watersheds and repair of subsidence features over abandoned coal mines in Sheridan County.

- First year for the Capacity Grant program. These grants support natural resource stewardship activities at the local level. \$157,000 was awarded for organizational capacity-building grants to 14 groups.

- CARDD released an infrastructure rate survey. The report provides monthly rates paid by users of drinking water and wastewater services. A link to the report is on the DNRC homepage at <http://dnrc.mt.gov>.

- Awarded \$1.8 million to provide project development, technical, and financial assistance to 58 conservation districts (CDs). Awarded 130 grants for natural resource conservation, education, demonstrations, soil health, stream restoration, saline seep control, water quality monitoring, and other locally led projects.

Participated in education programs such as Montana youth range camp, governor's range tour, range days, rolling rivers presentations, local conservation days and Montana Envirothon. Hosted the North American Envirothon (NAE). Over 50 high school teams from the US and Canada participated in a natural resource competition. Also hosted training sessions for new CD supervisors and employees on their roles and responsibilities, and on stream permitting for CDs.

Reserved Water Rights Compact Commission

Montana's Reserved Water Rights Compact Commission (RWRCC) was established by the Montana Legislature in 1979 as part of the state-wide general stream adjudication process (§85-2-701,MCA). The Compact Commission's primary goal is to negotiate water rights settlements with Tribal and Federal enclaves in Montana.

Fiscal year highlights

Proposed CSKT Water Rights Settlement. This is the final compact remaining to be ratified by the Montana Legislature. Governor Steve Bullock and Tribal Chairman Ron Trahan recently exchanged letters agreeing to a limited negotiation intended to incorporate elements of the previous Water Use Agreement. Negotiation sessions in September are anticipated. If not ratified by Montana's Legislature prior to the claim filing deadline, the Tribes must file their claims in the statewide adjudication before July 1, 2015.

Blackfeet Water Rights Settlement. The 2013 Montana Legislature completed the State's financial commitment to the settlement with an appropriation of \$14 million, bringing the total cash contribution to \$ 54 million. Federal legislation was introduced in 2010 and 2011 but not approved. The Blackfeet Water Rights Settlement Act of 2013 (SB 434) was introduced on March 4, 2013. A hearing on the bill was held before the Senate Committee on Indian Affairs on May 8, 2013. The parties continue to work on details of the Federal settlement bill.

Fort Belknap Indian Community Water Rights Settlement. The 2013 Montana Legislature completed the State's financial commitment to the settlement with an appropriation of \$3 million, bringing the total cash contribution to \$13.5 million along with \$4 million of in-kind contributions. Senator Tester introduced Federal legislation in the US Senate to approve and fund the water rights settlement on May 21, 2012, and re-introduced that legislation on July 30, 2013. The current bill, S.1394 – the Gros Ventre and Assiniboine Tribes of the Fort Belknap Indian Community Water Rights Settlement Act of 2013, was referred to the Committee on Indian Affairs where it is awaiting a hearing. Separately, the Compact Commission sent a claim filing notice to the United States on behalf of the Fort Belknap Indian Community (FBIC) on April 1, 2014. This notice formally advised the United States of the statutory deadline of June 30, 2015 for filing the FBIC's claims in the Montana Water Court Adjudication in the event the Compact is not approved by the FBIC prior to that date.



Water Resources

The Water Resources Division (WRD) promotes and coordinates the beneficial use, conservation, protection, and development of Montana's water resources. WRD carries out its duties for the purpose of promoting the general welfare and prosperity of the people of Montana. Sound coordination of the development and utilization of the state's water allows the division to protect existing uses and to promote adequate future supplies for domestic, industrial, agricultural and recreational uses, as well as conservation of water for wildlife, aquatic life, and other beneficial uses.

Fiscal year highlights

State Water Projects WRD oversees all water marketing issues, inspections; permitting; operations, maintenance, repairs, and rehabilitation efforts on 20 active water storage projects that consist of 24 dams, 2 dikes and approximately 250 miles of canals. This provides approximately 310,000 acre-feet of water per year.

This last year saw several rehabilitation and repair projects completed. The \$17M Ruby Dam rehabilitation effort, pictured above, was substantially completed this spring with the installation of the new outlet structure. The Broadwater-Missouri Spillway Bladder Replacement was completed at a cost of approximately \$2.5M while maintaining full operations at the power plant. East Fork of Rock Creek Main Canal Diversion started operations this spring with a newly installed 200 CFS capacity vertical panel fish screen. Emergency repairs to reinstall a 48-inch-diameter siphon pipe that floated out of the ground last fall were completed over the winter on the same East Fork project.

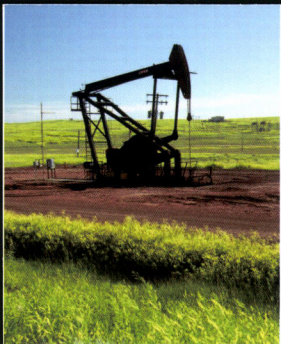
State Water Plan WRD has been working with Basin Advisory Councils in the Clark Fork/Kootenai, Yellowstone, Upper Missouri and Lower Missouri basins to develop a State Water Plan that identifies options and strategies for meeting Montana's future water needs, satisfy existing consumptive and non-consumptive uses, protecting existing water rights, and preparing for future drought and a changing climate. The State Water Plan will be submitted to the 2015 Legislature.

Dam Safety The Safety of Dams program issued a construction permit for the complete rehabilitation of Flower Creek near Libby. Construction for the rehabilitation of the outlet works on Eureka Dam near Choteau was completed in time for last year's irrigation season. Both dams are critical infrastructure for their communities.

Floodplains Flood hazard maps for local regulation of development within the 100-year floodplain for Broadwater and Yellowstone Counties have been updated and new flood hazard maps for the Big Hole River were recently completed.

Claim exam completion During this fiscal year, the WRD completed a key step in the adjudication of water rights in Montana by meeting its final legislative established benchmark of examining 57,000 claims before July 1, 2015. These benchmarks were met a full year ahead of schedule.





Trust Land Management

The Trust Land Management Division (TLMD) administers and manages the state school trust timber, surface, mineral resources, and navigable rivers for the benefit of the Common Schools (K-12) and other endowed institutions in Montana, under the direction of the State Board of Land Commissioners.

Fiscal year highlights

In FY 2014, land management and interest generated \$116 million in gross revenues, of which \$54.7 million was distributed to the Common Schools, in addition to \$3 million for the School Facility and Technology Fund.

The Real Estate Management Bureau adopted administrative rules and developed procedures and process for implementing the Cabin Site sale program authorized in the 2013 legislature by SB369. The bureau is currently working through a pilot sale program to sell five cabin sites by November 2014, under the new program. The value of cabin sites in the pilot program is \$1,070,000.

The Forest Management Bureau exceeded the current Annual Sustained Yield of 57.6 MMBF with a total of 61.4 MMBF sold in FY 2014. The estimated return on this volume sold is approximately \$16.2 million (stumpage & forest improvement fees). The program harvested 56 MMBF, generating \$11.2 million (stumpage & forest improvement fees) for the trust beneficiaries.

The Agriculture and Grazing Management Bureau implemented the 3rd year of a five-year phase-in of the new grazing multiplier adopted by the Land Board in 2011. The multiplier, along with beef cattle prices, is used to calculate the per animal unit month (AUM) base rental rate charged for state grazing lands. In FY2014, grazing rentals increased approximately \$1.3 million dollars, with total agriculture and grazing revenues generating nearly \$28.5 million dollars for the trust beneficiaries – the 3rd consecutive record year for the program.

Minerals Management Bureau revenue totaled \$39 million in FY 2014, including \$30 million in oil and gas revenues. Oil royalties topped \$20 million for the first time in the state's history.

The Land Board approved the Bull Mountain coal mine operating plan for the section of state-owned coal. This action, coupled with the approval of a mine permit amendment by the Department of Environmental Quality, clears the way for eventual mining on the state section, which will generate an estimated \$11.7 million in royalty revenue for the common schools trust.

Oil and Gas Division

The Oil and Gas Division is the staff of the Board of Oil and Gas Conservation (board) and is attached to the Department of Natural Resources and Conservation for administrative purposes. The division regulates the oil and gas industry with 16 employees in three offices and three home-based locations across the state.

Fiscal year highlights

During 2013, 297 new wells were permitted, 180 of which were new horizontal wells. Most of the activity was directed toward oil and is occurred in the northeastern part of the state with the Bakken Formation being the primary target. Gas drilling remains low as a result of low market prices. Only 13 new gas wells and one coal bed methane well were permitted during the year.

The board held 6 public hearings and issued 510 orders, the majority of which were also related to the continued development of the Bakken Formation.

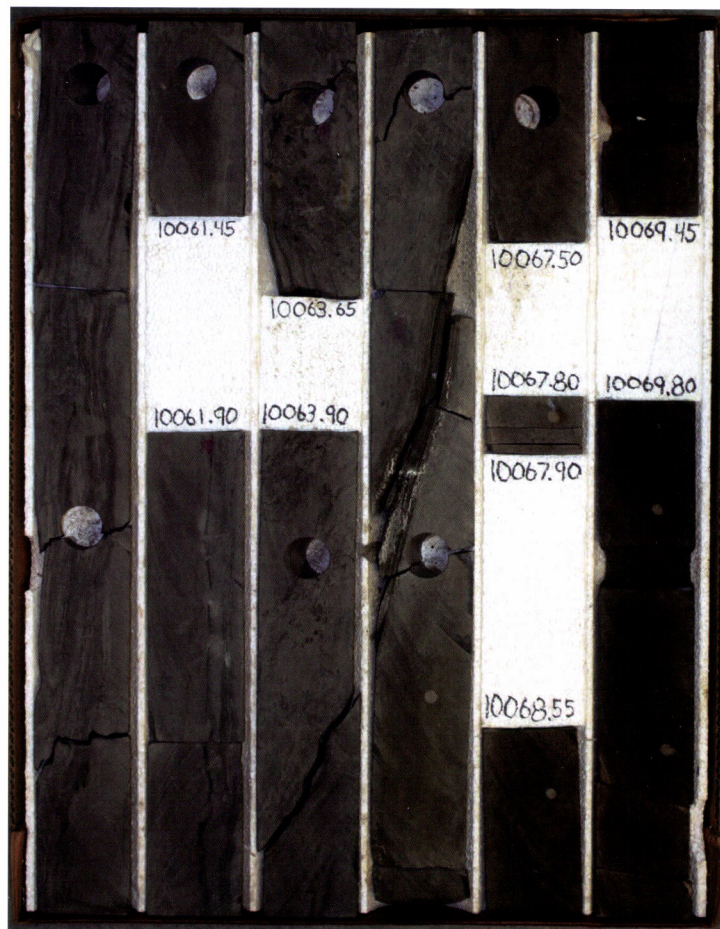
Oil production increased 10.56 percent compared to 2012 with approximately 29,284,000 barrels of oil produced during the year.

Most of the increase is attributable to the Williston Basin area and primarily occurred in Richland and Roosevelt Counties.

Natural gas production declined by 14.1 percent to 38.98 billion cubic feet of gas, and associated gas, or gas produced from oil wells, increased by 13 percent to 24.4 billion cubic feet of gas.

Division inspectors performed 5,776 recorded inspections during the year including 1,087 inspections of injection wells used for water disposal or for enhanced recovery.

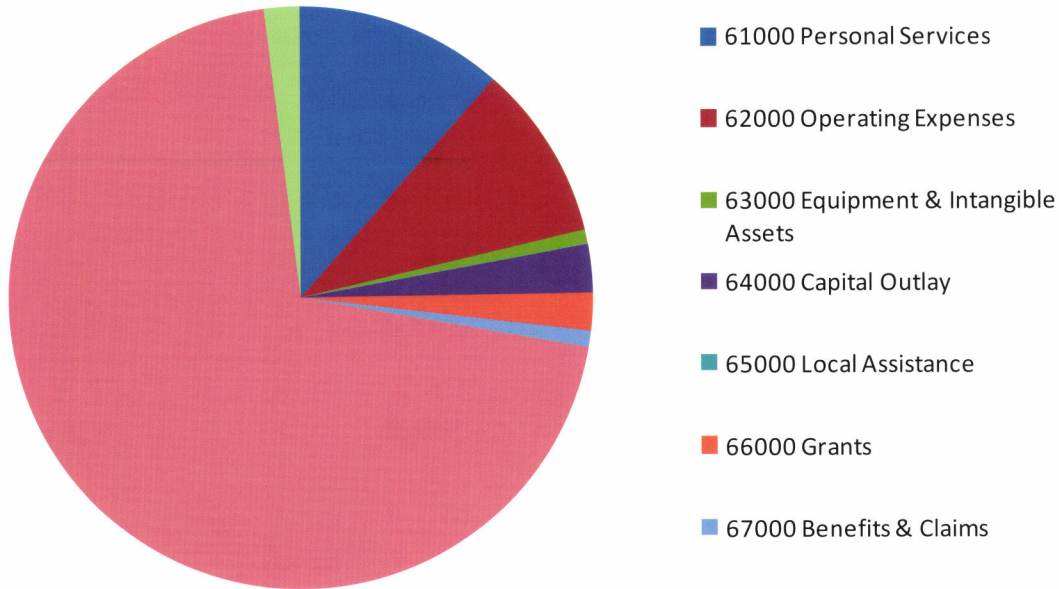
The well inspection process was reviewed and new procedures were introduced during the year. The position of Compliance Specialist was added to oversee compliance issues from all areas of the regulatory program, including violations identified during inspections. These changes were instituted to improve compliance tracking and to assure that consistent enforcement actions are taken.



Core slab from a horizontal Bakken oil well..

Financial Information

FY14 TOTAL EXPENDITURES BY ACTIVITY



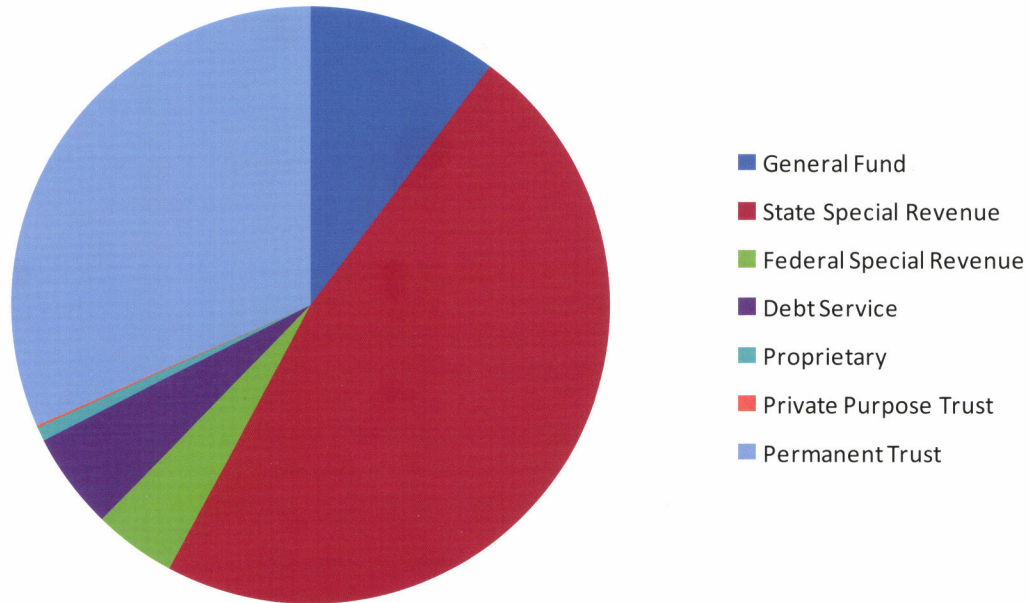
FY14 TOTAL EXPENDITURES BY ACTIVITY

Category

Amount

61000 Personal Services	40,485,339
62000 Operating Expenses	34,325,984
63000 Equipment & Intangible Assets	2,857,370
64000 Capital Outlay	9,547,231
65000 Local Assistance	-
66000 Grants	7,407,157
67000 Benefits & Claims	3,171,479
68000 Transfers-out	247,280,486
69000 Debt Service	6,880,533
6A000 Other Post Employment Benefits	68,677
Total	352,024,256

FY14 TOTAL EXPENDITURES BY FUND TYPE



FY14 TOTAL EXPENDITURES BY FUND TYPE

Category	Amount
General Fund	36,030,483
State Special Revenue	167,535,945
Federal Special Revenue	15,637,216
Debt Service	18,463,319
Proprietary	2,603,181
Private Purpose Trust	432,281
Permanent Trust	111,321,831
Total	352,024,256